Statement of the Honorable Mike Oxley
Chairman, Subcommittee on Finance and Hazardous Materials
Committee on Commerce
Reauthorization of the Securities and Exchange Commission
March 6, 1997

It is with pleasure that I welcome Chairman Arthur Levitt, Commissioner Steve Wallman, Commissioner Isaac Hunt and Commissioner Norman Johnson to the Subcommittee to consider the reauthorization of the Securities and Exchange Commission. The SEC is charged with the supervision of our financial markets, the protection of investors and the promotion of efficiency, competition and capital formation. In carrying out this charge, the SEC helps to make the American public markets work more efficiently, and in so doing, promotes job creation by small business and economic growth for all Americans.

I would like to commend my friend, Tom Manton, the Ranking Minority Member of this new Subcommittee and I look forward to working with him and all the members of the Committee to seek bipartisan solutions to some of the issues facing our markets today. I would also like to commend Chairman Tom Bliley, and thank him for his leadership on financial services issues. I commend John Dingell, the Ranking Minority Member of the full committee for his many years of activity in this area. Finally, I would like to commend Ed Markey, former Chairman of one half of this subcommittees jurisdiction, and look forward to his continued leadership on issues affecting our financial markets.

I am pleased to note the strong performance of our financial markets, a vibrant stock market that has raised trillions of dollars form American business, and the unparalleled access that Americans have to participation in these markets through mutual funds, 401 K plans and direct investment in stocks and bonds. It is the substantial freedom in which market participants conduct their affairs, that I believe contributes to dynamic innovation, and risk taking which are central to the capital formation process. I believe the SEC has contributed to this process by letting the market create new products unshackled by regulatory burden, while at the same time vigorously pursuing those who engage in fraud.

Under Chairman Levitt's leadership, the SEC worked cooperatively with the Committee, which on a bipartisan basis, passed the National Securities Markets Improvement Act, which was enacted into law last October. The Improvement Act made a number of important changes to the securities laws, including providing for exclusive federal registration of a wide range of securities offerings, lowering the cost of borrowing for broker dealers, and providing for cost benefit analysis of SEC rulemaking. I would like to thank Chairman Levitt for his assistance on this important legislation, and we look forward to constructive discussions with and oversight of the SEC as we seek to implement the Improvement Act's important changes.

I intend to introduce legislation to Reauthorize the Commission in these two fiscal years. A discussion draft of this legislation is before each of you. We will be working on a bipartisan basis to see that the important work of the Commission continues to receive adequate funding. In that respect, we will be building on the work that Chairman Bliley accomplished in the last Congress working with Hal Rodgers of the Appropriations Committee, Bill Archer of Ways and Means, and John Dingell and Ed Markey in providing a stable funding plan for the SEC that over the next ten years will reduce the surplus in fees collected by the agency above the cost of running the agency.

There are a number of issues that I think merit our attention as we consider the reauthorization of the SEC. The SEC has requested authorized funding levels of $320 million in fiscal year 1998 and $342.7 million in fiscal year 1999. We would like some additional background on the plans the Commission has for the agency in the next two years. In addition, pursuant to changes under the Improvement Act, the SEC is required to consider efficiency competition and capital formation in its rulemaking. This important new requirement is, I believe, a constructive way for an agency to conduct cost benefit analysis of its rules. We hope that this analysis will serve to improve SEC rules, lowering regulatory burden on businesses seeking to raise capital to create new jobs, and improving the general acceptance of SEC rules in the issuer community at large.

The Commission is working with the Financial Accounting Standards Board to develop new accounting treatment for certain derivative products. The United States is the world leader in over the counter derivative contracts. There are over $12 trillion in notional principal amount of these privately negotiated contracts issued by U.S. dealers. Preventing regulatory burdens that would diminish the utility of these contracts to business seeking to mitigate risk is an important goal. I want to stress to the Commission the importance of insuring that any accounting proposal be structured in such a way as to minimize disruption to these vitally important contracts.

Pursuant to both the Private Securities Litigation Reform Act and the National Securities Markets Improvement Act, we achieved, on a bipartisan basis, significant modernization of the laws governing our financial markets. In this Congress, I believe that some consideration to both the role and the rules of the Self Regulatory Organizations, like the New York Stock Exchange, the National Association of Securities Dealers and the American Stock Exchange would be beneficial. The SROs, as they are known, provide a useful service to the markets by allowing market participants to police themselves, which is efficient and saves the government money. In the course of this self regulation, we want to be sure that the Exchanges are not erecting rules that are designed to protect their

members from competition or disadvantage public investors.

In particular I am concerned that Exchange rules that mandate trading in fractions are both antiquated and not in the public interest. I have read with interest that the Toronto Stock Exchange has modernized by converting from trading in fractions to trading in decimals. This change I understand has reduced the spread captured by floor traders from public investors and has made the stock tables easier to understand for ordinary investors. I understand that if the Exchanges did not mandate trading in minimum increments of 1/8th of a dollar, (or 12.5 cents to the rest of us) large volume stocks like IBM and Coke would trade in increments of one or two cents. This may not sound like a lot of money -- but in the context of five hundred million share days it adds up. I understand that Commissioner Wallman, who is with us today, has estimated that retail investors get charged an extra $1.5 billion per annum in making trades because of fractionalized spreads. Large institutional investors are insulated from this practice because of their ability to negotiate spread on large block trades. It is the little guy who is paying full freight. I plan to seek information from both our witness today and from others on whether this would be an appropriate area for Congressional action.

Once Again it is a pleasure to welcome Chairman Levitt and the Members of the Securities and Exchange Commission. I yield back the balance of my time.